

## FEDERAL HOUSING FINANCE BOARD (FHFB)

### Statement of Regulatory Priorities

The Federal Housing Finance Board (Finance Board) is an independent agency that is statutorily charged with regulating the Federal Home Loan Bank (FHLBank) System. The FHLBank System is a Government-sponsored enterprise consisting of 12 regional "wholesale" FHLBanks that provide advances (loans) to member financial institutions for the purpose of housing finance. The Finance Board is required to prepare the following Regulatory Plan pursuant to section 4 of Executive Order 12866.

In June 1995 the Finance Board achieved a quorum for the first time in 17 months, thereby enabling it to begin moving forward on several pending and planned regulatory initiatives. The Finance Board's three major regulatory priorities for 1996 are: to ensure that the FHLBanks operate in a financially safe and sound manner; to ensure that they carry out their housing finance mission; and to reduce the regulatory burden on the FHLBanks by determining those governance authorities currently exercised by the Finance Board that may be more appropriately exercised by the FHLBanks. Within these major priorities, the Finance Board has a number of 1995-96 priority projects, three of which are expected to result in significant regulatory actions (as defined in E.O.12866) in 1996.

#### FHLBank Safety And Soundness Priority

The Finance Board's highest priority is to continue to ensure the safety and soundness of the FHLBank System. This priority entails the ongoing examination and supervision of the 12 FHLBanks and the FHLBank System's funding agent, the Office of Finance, and all matters relating to safety and soundness. While none of the projects within this priority is expected to result in a significant regulatory action in 1996, the following interrelated matters are the most important components of this top priority for the agency:

1. The execution of the Finance Board-adopted annual strategic plan for onsite examination of the 12 FHLBanks, the Office of Finance, and the Financing Corporation;

2. The development and adoption by the Finance Board of the agency's examination manual, which will articulate the policies and procedures to be followed by examiners in conducting examinations; and

3. A comprehensive review of the Financial Management Policy governing investments and other nonadvance financial activities of the FHLBank System.

#### FHLBank Housing Finance Mission Priority

The second major Finance Board regulatory priority is to continue to ensure that the FHLBanks carry out their housing finance mission. There are two significant regulatory actions through which the Finance Board intends to further this priority in fiscal year 1996: (a) the amendment of the Finance Board's existing Affordable Housing Program (AHP) regulation and (b) the possible adoption of a new regulation or guidelines governing the FHLBanks' Community Investment Program (CIP). These two initiatives are described below (RINs 3069-AA28 and 3069-AA05).

The Finance Board also intends to implement this priority by amending its existing Community Support Requirements (Community Support) regulation to establish specific community support standards applicable to credit union and insurance company members. The Federal Home Loan Bank Act (Bank Act) requires the Finance Board to adopt a regulation establishing standards of "community investment or service" that member institutions must meet in order to maintain continued access to long-term advances.

Under the existing Community Support regulation, the primary standard for evaluating the adequacy of a member's community support activities is the evaluation of the member's compliance with the Community Reinvestment Act of 1977 (CRA), as evidenced by the CRA rating assigned to the member by its Federal banking regulator. However, since the CRA does not apply to credit unions and insurance companies, these institutions do not receive CRA ratings. The amendment to the Community Support regulation is intended to address this issue. The Finance Board does not expect the amendment of the Community Support regulation to constitute a significant regulatory action.

#### FHLBank Corporate Governance Priority

The Finance Board's third major priority for fiscal year 1996 is to devolve to the FHLBanks, to the extent permitted by current law, decisionmaking authority regarding

corporate governance and business oversight issues, thereby reducing regulatory burden on the FHLBanks and permitting the Finance Board to focus upon its core safety and soundness, regulatory, and supervisory functions.

Throughout the remainder of 1995 and in 1996, the Finance Board will address a number of specific governance and oversight issues and implement those changes it believes are appropriate and that can be carried out without statutory change. Primary among these efforts will be the promulgation of a proposed and, eventually, a final rule amending the Finance Board's regulation on members of the FHLBanks System. This initiative is discussed below (RIN 3069-AA41). The Finance Board also intends to promulgate a proposed and, eventually, a final rule amending its regulation on the organization of the FHLBanks to transfer from the Finance Board to the boards of directors of the FHLBanks final authority to establish rates of pay for FHLBank officers and employees. This anticipated regulatory change will not amount to a significant regulatory action.

In addition to its regulatory and policy actions, the Finance Board will be cooperating with Congress as it attempts to develop comprehensive FHLBank System reform legislation aimed largely at further devolving corporate governance authority to the FHLBanks beyond what is possible under the current statutory scheme.

The Finance Board's corporate governance priority promotes the goals of the President's National Performance Review in two ways. First, it will "cut red tape" by reducing the number and extent of regulations that control the FHLBanks' business decisions. Second, it will "put customers first" by allowing the FHLBanks more flexibility in carrying out the purpose for which they were created: to channel money from Wall Street to individual housing lenders all across America.

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## FHFB

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### PROPOSED RULE STAGE

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#### 157. AFFORDABLE HOUSING PROGRAM

##### Priority:

Economically Significant

**Reinventing Government:**

This rulemaking is part of the Reinventing Government effort. It will revise text in the CFR to reduce burden or duplication, or streamline requirements.

**Legal Authority:**

12 USC 1422b(a)(1); 12 USC 1430(j)

**CFR Citation:**

12 CFR 960

**Legal Deadline:**

None

**Abstract:**

The Federal Housing Finance Board (Finance Board) issued a proposed rule revising its regulation governing the Affordable Housing Program (AHP) in order to simplify and clarify the AHP's requirements for the Federal Home Loan Banks (FHLBanks) and their members.

**Statement of Need:**

The Finance Board is revising its AHP Regulation in order to address operational issues that have arisen during the 5 years the program has been in existence. The proposed AHP amendments will help enhance the AHP's compatibility with various State and Federal housing programs that provide funds in conjunction with AHP funds. In addition, the amendments would make the AHP more responsive to local low-income housing needs in each of the 12 FHLBank districts and increase efficiency in administration of the program.

**Summary of the Legal Basis:**

Section 10(j) of the Federal Home Loan Bank Act requires the Finance Board to promulgate regulations governing the AHP. See 12 U.S.C. 1430(j).

**Alternatives:**

During the development of the proposed AHP amendments, the Finance Board considered various alternative approaches to dealing with the operational issues that have arisen over the 5 years of the AHP's existence. In addition, the Finance Board will consider all alternatives suggested by the public during the notice-and-comment process. The Finance Board expects to address these alternatives in its final AHP regulation.

**Anticipated Costs and Benefits:**

At this time, it is not possible to quantify the expected costs and benefits of the revised AHP regulation. In general, the Finance Board expects the

revised AHP regulation to reduce the FHLBanks' administrative costs of operating the AHP.

**Risks:**

The revised AHP regulation does not address issues of financial risk to the FHLBanks. The advances made by the FHLBanks through the AHP, like all FHLBank advances, are governed by the Finance Board's Advances regulation, which addresses the safety and soundness issues involved in making advances. Since advances made through the AHP are overcollateralized, there is a low magnitude of risk of loss to the FHLBanks in making such advances.

**Timetable:**

Action	Date	FR Cite
NPRM	01/10/94	59 FR 1323
NPRM Comment Period End	03/11/94	59 FR 1323
Second NPRM	03/00/96	
Second NPRM Comment Period End	05/00/96	
Final Action	07/00/96	
Final Action Effective	08/00/96	

**Small Entities Affected:**

None

**Government Levels Affected:**

None

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**RIN:** 3069-AA28

**FHFB****158. • MEMBERS OF THE FEDERAL HOME LOAN BANKS****Priority:**

Other Significant

**Reinventing Government:**

This rulemaking is part of the Reinventing Government effort. It will revise text in the CFR to reduce burden or duplication, or streamline requirements.

**Legal Authority:**

12 USC 1422a; 12 USC 1422b; 12 USC 1424; 12 USC 1426; 12 USC 1442

**CFR Citation:**

12 CFR 933

**Legal Deadline:**

None

**Abstract:**

The Finance Board proposes to amend its regulation on members of the Banks to allow the 12 Federal Home Loan Banks, rather than the Finance Board, to approve applications for Bank membership.

**Statement of Need:**

The proposed rule would permit the FHLBanks, rather than the Finance Board, to approve applications for FHLBank membership. It would require the FHLBanks to apply most of the tests and criteria for membership currently used by the Finance Board in approving applications. The regulation, as amended, would further the Finance Board's policy to devolve to the FHLBanks as many functions of corporate governance as are practicable under the current statutory scheme.

**Summary of the Legal Basis:**

Section 4 of the Bank Act sets forth eligibility criteria for membership in FHLBanks, but does not require expressly that the Finance Board approve individual applications for membership. (See 12 USC 1424.) Section 2B(a)(1) of the Bank Act authorizes the Finance Board to promulgate regulations necessary to carry out the provisions of the Bank Act (see 1422b(a)(1)), including those necessary to fulfill the Finance Board's duties to ensure the safety and soundness of the FHLBank system (see 1424a(3)(A)), and to ensure that the FHLBanks carry out their housing finance mission (see 1422a(3)(B)(i)). Therefore, the Finance Board has the statutory power both to devolve to the FHLBanks approval authority regarding membership applications and to establish regulatory guidelines to govern the FHLBanks' exercise of such authority.

**Alternatives:**

In deciding whether to amend its regulation on members of the FHLBanks, the Finance Board considered the possibility of retaining final approval authority over FHLBank membership applications. However, the Finance Board determined that such a course would continue to cause unnecessary delay in the processing of membership applications and would maintain a layer of bureaucracy in the application process that is not necessary to ensure the safety and soundness of the FHLBank System or to ensure that the FHLBanks are

carrying out their housing finance mission.

#### Anticipated Costs and Benefits:

The regulation on members of the FHLBanks, as amended, would not impose any additional costs on either the Finance Board, the FHLBanks, or potential FHLBank members and would render benefits to each. Applicants for membership would continue to submit application materials, but would do so pursuant to streamlined procedures. FHLBanks would continue to review membership applications, as they do currently, but would not need to prepare the materials for Finance Board review. With the elimination of the membership application review function, Finance Board staffing levels could be reduced, or staff time could be devoted to other priorities. Ultimately, this would benefit the FHLBanks, which fund Finance Board operations through the payment of annual assessments.

#### Risks:

The only risk to which the amendment of the regulation on members of the FHLBank System applies is the financial risk assumed by FHLBanks in accepting financial institutions as members. The amended regulation would minimize this risk by requiring that the FHLBanks apply the same safety and soundness guidelines in assessing membership applications that are applied now by the Finance Board.

#### Timetable:

Action	Date	FR Cite
NPRM	10/00/95	
NPRM Comment Period End	12/00/95	

#### Small Entities Affected:

None

#### Government Levels Affected:

None

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RIN: 3069-AA41

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### FINAL RULE STAGE

#### 159. COMMUNITY INVESTMENT PROGRAM

##### Priority:

Economically Significant

##### Legal Authority:

12 USC 1422a; 12 USC 1422b; 12 USC 1430(i)

##### CFR Citation:

12 CFR 961

##### Legal Deadline:

None

##### Abstract:

Section 10(i) of the Bank Act requires the FHLBanks to establish a community investment program (CIP) to make advances to FHLBank members to finance community-oriented mortgage lending. The Finance Board is contemplating proposing a regulation or developing guidelines that would address operational aspects of the CIP.

##### Statement of Need:

The CIP has operated for 5 years without any clarifying regulations. During this time, operational issues have arisen. A regulation or guidelines may be necessary to address these issues in order to establish a more specific framework for the operation of the CIP.

##### Summary of the Legal Basis:

Section 2B(a)(1) of the Bank Act authorizes the Federal Housing Finance Board (Finance Board) to promulgate regulations necessary to carry out the provisions of the Act. (See 12 U.S.C. 1422b(a)(1).) Section 10(i) of the Bank Act requires the FHLBanks to establish a CIP, pursuant to the general statutory criteria set forth in section 10(i).

##### Alternatives:

Because consideration of additional CIP guidance is in a very preliminary stage, including the issue of whether such guidance will be established by regulation or by guidelines, the Finance

Board has not yet analyzed the alternative approaches to the issues expected to be addressed in this initiative.

#### Anticipated Costs and Benefits:

Because the Finance Board has not yet analyzed the alternative approaches to the issues expected to be addressed in the CIP regulation or guidelines, the Finance Board is not yet able to identify the expected costs and benefits of any such CIP regulation or guidelines.

#### Risks:

The CIP regulation or guidelines will not address issues of financial risk to the FHLBanks. The advances made by the FHLBanks through the CIP, like all FHLBank advances, are governed by the Finance Board's Advances regulation, which addresses the safety and soundness issues involved in making advances. Since advances made through the CIP are overcollateralized, there is a low magnitude of risk of loss to the FHLBanks in making such advances.

#### Timetable:

Action	Date	FR Cite
Final Action	09/00/96	

#### Small Entities Affected:

None

#### Government Levels Affected:

None

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